

## Message Text

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ACTION ABF-01

INFO OCT-01 ARA-10 ISO-00 FS-01 OPR-02 PER-01 IGA-02  
AID-05 TRSE-00 OMB-01 (ISO) W  
-----074980 180118Z /72  
R 171845Z AUG 77  
FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 3307  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

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EO 11652 NA  
TAGS ETRD EFIN BR  
SUBJECT: SELECTED ECONOMIC INDICATORS

1. CRUZEIRO DEVALUATION - ON AUGUST 16, 1977 THE GOB MONETARY AUTHORITIES ANNOUNCED THE NINTH DEVALUATION OF THE CRUZEIRO OF THE YEAR, TO 14.74 PER DOLLARS BUYING AND 14.81 PER DOLLAR SELLING. THE NEW RATES REPRESENT 1.73 PERCENT DEPRECIATION SINCE THE LAST CHANGE, 20.81 PERCENT CUMULATIVE MOVEMENT IN CY 1977, AND 32.79 PERCENT CUMULATIVE DEVALUATION IN THE LAST 12 MONTHS. THE TIME LAPSE WAS 26 DAYS OR EXACTLY EQUIVALENT TO THE AVERAGE INTERVAL OF 26 DAYS IN 1977 TO DATE.

2. BALANCE OF TRADE- PRELIMINARY DATA (ALL FOB) INDICATE EXPORTS OF \$1,021 MILLION AND IMPORTS OF \$911 MILLION IN JULY . RESULTING SURPLUS OF \$110 MILLION IMPLIES CUMULATIVE TRADE SURPLUS OF \$347 MILLION DURING 7 MONTHS JAN - JUL 1977. IN COMPARISON BRAZIL RECORDED A TRADE DEFICIT OF \$1,679 MILLION IN THE SAME PERIOD OF 1976. OWING TO A SHARP DROP IN COFFEE RECEIPTS FROM \$375 MILLION IN JUNE TO \$95 MILLION IN JULY, TOTAL EXPORTS WERE NEARLY 17 PERCENT LOWER IN JULY THAN IN JUNE. HOWEVER, CUMULATIVE EXPORTS IN JAN-JULY 1977 STILL REPRESENTED A 36 PERCENT INCREASE OVER EXPORTS IN THE SAME 7 MONTHS OF 1976.  
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3. FOREIGN RESERVES - GROSS FOREIGN RESERVES WERE REPORTED IN THE PRESS AS \$5,787 MILLION AT THE END OF APRIL (LATEST AVAILABLE DATA). THE IMPLIED DECLINES OF \$78 MILLION IN APRIL AND \$757 MILLION FROM THE END OF 1976 ARE ATTRIBUTED BY GOB AUTHORITIES TO NORMAL SEASONAL FACTORS RELATED TO CAPITAL FLOWS. MINISTER OF FINANCE SIMONSEN RECENTLY EXPRESSED HIS EXPECTATION THAT RESERVES AT

THE END OF 1977 WILL EQUAL THE LEVEL OF \$6.5 BILLION AT THE END OF 1976.

4. DOMESTIC PRICES - THE GENERAL PRICE INDEX ROSE BY 2.1 PERCENT IN THE MONTH OF JULY, GIVING CUMULATIVE INFLATION OF 25.1 PERCENT IN 1977 AND 43.7 PERCENT IN THE 12 MONTHS AUG 1976 - JUL 1977. WHOLESAL PRICES INCREASED 1.9 PERCENT IN JULY, 23.4 PERCENT IN JAN-JULY 1977, AND 42.4 PERCENT IN LAST 12 MONTHS. THE INCREASE IN THE RIO COST-OF-LIVING INDEX WAS 2.4 PERCENT IN JULY, CUMULATIVE 26.9 PERCENT IN 1977, AND 44.2 PERCENT IN LAST 12 MONTHS.

5. MONETARY EXPANSION: CORRECTION AND WAGE ADJUSTMENT. MONEY SUPPLY (M1) INCREASE WAS 10.2 PERCENT FIRST SEMESTER 1977 AND 35.2 PERCENT LAST 12 MONTHS. THE COEFFICIENT OF MONETARY CORRECTION BEING APPLIED TO INDEXED TREASURY BONDS IN AUGUST IMPLIED AN ADJUSTMENT OF 38.5 PERCENT PER ANNUM. THE ADJUSTMENT TO BE USED ON NEW ISSUES IN SEPTEMBER WILL BE 37.5 PERCENT. THE GUIDELINES FOR LABOR CONTRACTS CONCLUDED IN JULY AND AUGUST PERMIT WAGE ADJUSTMENTS OF UP TO 40 PERCENT PER ANNUM.

6. REAL ECONOMIC ACTIVITY- INDICATORS AS REPORTED IN THE PRESS WERE MIXED IN MAY - JULY. CEMENT PRODUCTION IN JAN-MAY 1977 WAS 15 PERCENT HIGHER THAN IN THE FIRST FIVE MONTHS OF 1976. INDUSTRIAL USE OF ELECTRIC ENERGY THROUGH JUNE WAS UP 12.5 PERCENT. STEEL INGOT OUTPUT THROUGH JULY WAS UP 23 PERCENT OVER THE SAME PERIOD OF 1976. ON THE OTHER HANDS, THE CONSUMPTION OF PETROLEUM DERIVATIVES LIMITED OFFICIAL USE

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INCREASED ONLY 1.5 PERCENT IN THE FIRST 7 MONTHS OF 1977. AUTO-MOBILE GASOLINE CONSUMPTION DROPPED BY 5 PERCENT AND THE PRODUCTION AND SALES OF CARS WERE OFF BY 7-8 PERCENT COMPARED TO 1976. RETAIL SALES IN RIO WERE DOWN BY NEARLY 10 PERCENT IN JAN-JUN 1977. REQUESTED BANKRUPTCIES DURING THE FIRST SEMESTER OF 1977 WERE 37 PERCENT HIGHER IN RIO AND 26 PERCENT HIGHER IN SA PAULO THAN IN THE SAME PERIOD OF 1976. IN GENERAL, EMPLOYMENT LEVELS REMAIN HIGH WITH THE EXCEPTION OF THE AUTOMOBILE INDUSTRY WHICH ANNOUNCED SEVERAL SELECTIVE LAYOFFS IN RECENT MONTHS.

7. COMMENT - THE SOMEWHAT SLOWER DEPRECIATION OF THE EXCHANGE RATE PROBABLY REFLECTS THE DESIRE OF THE GOB TO TAKE ADVANTAGE OF THE PREVAILING TRADE SURPLUS TO PERMIT IMPORTS TO EXERT SOME DOWN-ARD PRESSURE ON DOMESTIC PRICES. DESPITE THE MARGINALLY HIGHER INCREASE IN THE GENERAL PRICE INDEX IN JULY COMPARED TO JUNE, THE PERFORMANCE ON INFLATION WAS SATISFACTORY. THE CUMULATIVE 12 MONTHS INCREASES IN WHOLESAL PRICES, THE COST-OF-LIVING, AND THE OVERALL INDEX ALL CONTINUED TO DECLINE. MONETARY CORRECTION AND WAGE ADJUSTMENTS CONTINUED TO BE SET WELL UNDER THE RATE OF INFLATION. ALSO RECENTLY DECREED INCREASES IN AGRICULTURAL MINIMUM PRICES WERE AIMED AT HOLDING DOWN THE RISE IN THE OVERALL LEVEL OF PRICES. THE DROP IN FOREIGN RESERVES IN THE FIRST FOUR MONTHS

OF 1977 IS VIEWED AS COMPLETELY NORMAL. THE CURRENT SATISFACTORY  
TRADE ACCOUNT AND READY BRAZILIAN ACCESS TO RELATIVELY LIQUID  
INTERNATIONAL CAPITAL MARKETS HAVE LED SOME CENTRAL BANK SPOKESMEN  
TO SPECULATE IN PRIVATE THAT TOTAL FOREIGN RESERRVES MAY RISE IN  
1977 ABOVE THE END 1976 LEVEL OF \$6.5 BILLION. ACTIVITY IS  
CLEARLY DOWN IN THE AUTOMOBILE INDUSTRY AND INCREASED BANKRUPT-  
CIES AND REDUCED RETAIL SALES REFLECT THE GOB'S POLICIES TO SLOW  
DOWN THE ECOONOMY. NONETHELESS, GOB SPOKESMEN ARE STILL TALKING  
ABOUT REAL GROWTH OF PERHAPS 4 TO 7 PERCENT IN 1977 END COMMENT.  
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## Message Attributes

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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009